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Macroeconomic policy questions: external debt crisis and development

Report of the Second Committee*

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I. Introduction

1. The Second Committee held a substantive debate on agenda item 83 (c) (see A/59/481, para. 2). Action on sub-item (c) was taken at the 17th and 38th meetings, on 20 October and 7 December 2004. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/59/SR.17 and 38).

II. Consideration of draft resolutions A/C.2/59/L.3 and A/C.2/59/L.53

2. At the 17th meeting, on 20 October, the representative of Qatar, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "External debt crisis and development" (A/C.2/59/L.3), which read:

> "*The General Assembly*,
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> "*Recalling* its resolution 58/203 of 23 December 2003 on the external debt crisis and development, and recalling also the Monterrey Consensus of the International Conference on Financing for Development, which, in particular, recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

* The report of the Committee on this item will be issued in five parts, under the symbol A/59/481 and Add.1-4.

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"*Recalling also* the United Nations Millennium Declaration adopted on 8 September 2000,

"*Concerned* that the current global recovery has not contributed to significant progress in the poorest countries in attaining the agreed development goals or in solving the external debt problems of developing countries, and noting that the continuing debt and debt-servicing obligations of developing countries, in particular the heavily indebted poor developing countries, constitute an element that adversely affects their sustainable development,

"*Welcoming* the further extension of the sunset clause of the Heavily Indebted Poor Countries Initiative, convinced that the implementation of the Initiative could be enhanced by streamlining conditionalities, in particular by eliminating structural and microconditions, and in this regard emphasizing the need to ensure that debt relief does not replace other sources of financing, and welcoming also the call in the communiqué issued by the joint International Monetary Fund/World Bank Development Committee on 2 October 2004 urging all creditors to participate in the Heavily Indebted Poor Countries Initiative,

"1. *Takes note* of the report of the Secretary-General;

"2. *Reaffirms* the determination, as expressed in the United Nations Millennium Declaration, to deal comprehensively and effectively with the debt problems of developing countries;

"3. *Emphasizes* that all creditors and debtors must share responsibility for preventing and resolving unsustainable debt situations;

"4. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth and sustainable development and with the achievement of the internationally agreed development goals, including those contained in the Millennium Declaration, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

"5. *Also stresses* that debt sustainability depends on a confluence of many factors at the international and national levels, underscores that no single indicator should be used to make definitive judgements about debt sustainability, and in this regard emphasizes that country-specific circumstances should be taken into account in debt sustainability analyses;

"6. *Reiterates* the call upon developed countries, as expressed in the Millennium Declaration, on developed countries to implement the enhanced programme of debt relief for the heavily indebted poor countries, which requires additional financial resources;

"7. *Notes* with great concern that, after reaching the completion point, the beneficiary countries of the Heavily Indebted Poor Countries Initiative have not been able to achieve debt sustainability, and in this regard welcomes recent initiatives to consider a more comprehensive write-off of the official debt of the heavily indebted poor countries and other equally poor countries, including debt owed to multilateral financial institutions;

"8. *Recognizes* the continued efforts of the heavily indebted poor countries to improve their domestic policies and economic management, and in this regard calls upon all creditors to encourage those efforts through further participation in the delivery of debt relief so as to ensure adequate and sufficiently concessional financing by international financing institutions and the donor community;

"9. *Stresses* the importance of continued flexibility with regard to the eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative and the need to keep the computational procedures and assumptions underlying debt sustainability analysis under review;

"10. *Also stresses* the need for all creditors, including the Paris and London Clubs and other relevant forums, to pursue, where appropriate, debt relief measures vigorously and expeditiously;

"11. *Notes* that the Evian Approach of the Paris Club can contribute to resolving with greater flexibility the debt problems of highly indebted developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative, and in this regard calls upon creditor countries to ensure that the debt of such countries is treated in a way that reflects their financial needs and the objective of enhancing long-lasting debt sustainability;

"12. *Calls* upon donor countries to continue their efforts to increase bilateral grants to low- and middle-income developing countries, in addition to those which are accounted for by debt forgiveness, in order to ensure that debt sustainability can be attained in the medium to long term without compromising public and private investment and spending for health and education, and in this regard stresses the need to take steps to ensure that resources provided for debt relief do not detract from official development assistance resources;

"13. *Emphasizes* the need for more flexibility from the international community in helping post-conflict developing countries, especially those which are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

"14. *Also emphasizes* the need for the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused, inter alia, by natural disasters, conflicts, changes in global growth prospects or in the terms of trade, especially for commodity-exporting developing countries;

"15. *Takes note* of the new debt sustainability framework of the World Bank and the International Monetary Fund, which aims at identifying countries that will be eligible for International Development Association grants, calls for transparency in the computation of the country policy and institutional assessments that form part of the framework, and also calls for an evaluation of its overall implications for low-income countries;

"16. *Stresses* the need to find a comprehensive solution for the debt problems of heavily indebted low- and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries

Initiative, and in this regard continues to encourage the exploration of innovative mechanisms to comprehensively address the debt problems of those countries;

"17. *Also stresses* the need to consider an international debt work-out mechanism, in the appropriate forums, the adoption of which should not preclude emergency financing in times of crisis, to promote fair burden-sharing and minimize moral hazard, which will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner;

"18. *Calls upon* the international community to support capacity-building in developing countries for the management of financial assets and liabilities in order to enhance debt-financing policies as an integral part of national development strategies;

"19. *Also calls upon* the international community, including the United Nations system, and invites the Bretton Woods institutions as well as the private sector to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problem of developing countries;

"20. *Welcomes* the initiative of the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and funds and other multilateral institutions, to create a consultative group on external debt management aimed at facilitating cooperation and coordination among providers of technical assistance in debt management;

"21. *Requests* the Secretary-General to submit to the General Assembly at its sixtieth session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

"22. *Decides* to include in the provisional agenda of its sixtieth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt crisis and development".

3. At the 38th meeting, on 7 December, the Vice-Chairman of the Committee, Mr. Majdi Ramadan (Lebanon), introduced a draft resolution entitled "External debt crisis and development" (A/C.2/59/L.53), which he submitted on the basis of informal consultations held on draft resolution A/C.2/59/L.3.

4. At the same meeting, the representative of Guatemala, as facilitator of the draft resolution, orally corrected operative paragraphs 4 and 11 of the draft resolution.

5. Also at the 38th meeting, the Committee adopted draft resolution A/C.2/59/L.53 as orally corrected (see para. 7).

6. In the light of the adoption of draft resolution A/C.2/59/L.53, draft resolution A/C.2/59/L.3 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

7. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

External debt crisis and development

The General Assembly,

Recalling its resolution 58/203 of 23 December 2003 on the external debt crisis and development,

Reaffirming the Monterrey Consensus of the International Conference on Financing for Development,[1] which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

Recalling the United Nations Millennium Declaration[2] adopted on 8 September 2000, which reaffirms the need to deal comprehensively and effectively with the debt problems of low- and middle-income developing countries,

Recalling also its resolution 57/270 B of 23 June 2003,

Concerned that a number of developing countries have not sufficiently benefited from the current global economic recovery in their efforts to attain the internationally agreed development goals, in particular the heavily indebted poor countries, where continuing debt and debt-servicing obligations could adversely affect their sustainable development,

Welcoming the further extension of the sunset clause of the Heavily Indebted Poor Countries Initiative, noting that the Initiative aims to promote debt sustainability in the poorest countries and that its implementation could be enhanced by streamlining conditionalities, emphasizing in this regard the need to ensure that debt relief does not replace other sources of financing, acknowledging furthermore the progress in the implementation of the Initiative,[3] and welcoming the call in the communiqué issued by the joint International Monetary Fund/World Bank Development Committee on 2 October 2004 urging all creditors to participate in the Initiative,

1. *Takes note* of the report of the Secretary-General;[4]

2. *Emphasizes* that creditors and debtors must share responsibility for preventing and resolving unsustainable debt situations in a timely and efficient manner, stresses the need to continue to bring them together in relevant international forums, and in this regard reiterates that the international financial system, along with enhanced official and private external financing and foreign direct investment, are key elements for a durable solution;

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[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] See resolution 55/2.

[3] Fifteen countries have passed the completion point and 27 countries have redirected substantial funds from debt-servicing to social expenditures.

[4] A/59/219.

3. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including those contained in the United Nations Millennium Declaration,[2] and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

4. *Also stresses* that debt sustainability depends on a confluence of many factors at the international and national levels, underscores that no single indicator should be used to make definitive judgements about debt sustainability, and in this regard, while acknowledging the need to use transparent and comparable indicators, emphasizes that country-specific circumstances and the impact of external shocks should be taken into account in debt sustainability analyses and invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts and changes in global growth prospects or in the terms of trade, especially for commodity-exporting developing countries;

5. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible lending and borrowing and the need to help these countries manage their borrowings and avoid a build-up of unsustainable debt, including through the use of grants, and in this regard welcomes the ongoing work by the International Monetary Fund and the World Bank to develop a forward-looking debt sustainability framework for heavily indebted poor countries and low-income countries, as well as the current discussion on other initiatives aimed at ensuring long-term debt sustainability, including through debt reduction or cancellation, while stressing the need to maintain the financial integrity of the multilateral financial institutions;

6. *Stresses* the need for the World Bank and the International Monetary Fund to keep the overall implications of the framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and welcomes the intention to disclose the International Development Association country performance ratings that form part of the framework;

7. *Reaffirms* the need to pursue, where appropriate, debt relief measures vigorously and expeditiously, by all creditors, including within the Paris and London Clubs and other relevant forums, and welcomes other bilateral initiatives that have been undertaken to reduce outstanding indebtedness, so as to contribute to debt sustainability and facilitate sustainable development;

8. *Reiterates* the call upon developed countries, as expressed in the United Nations Millennium Declaration, to complete the enhanced programme of debt relief for the Heavily Indebted Poor Countries Initiative and to ensure that it is fully financed;

9. *Recognizes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to improve their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create

a domestic environment conducive to private sector development, economic growth and poverty reduction, including, inter alia, a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites all creditors, including both private and public creditors, to encourage those efforts, for example, through further participation in the delivery of debt relief in the framework of the enhanced Heavily Indebted Poor Countries Initiative and continued provision of adequate and sufficiently concessional financing by international financing institutions and the donor community;

10. *Stresses* the importance of continued flexibility with regard to the eligibility criteria for the enhanced Heavily Indebted Poor Countries Initiative, in particular for countries in post-conflict situations, and the need to keep the computational procedures and assumptions underlying debt sustainability analysis under review;

11. *Also stresses* the need to find a solution for the debt problems of heavily indebted low- and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative, and in this regard continues to encourage the exploration of mechanisms to comprehensively address the debt problems of those countries, which may include debt-for-sustainable-development swaps or multicreditor debt swap arrangements, as appropriate;

12. *Takes note* of the acceptance that the debt of some non-HIPC debtor countries is unsustainable and that prudent and appropriate steps are needed to deal with these problems, in this regard welcomes the Evian Approach of the Paris Club, and calls upon creditor countries to ensure that a more tailored response to debt restructuring is granted only in case of imminent default and is not considered by debtor countries as an alternative to more expensive sources of financing and that the debt of such countries is treated in a way that reflects their financial vulnerabilities and the objective of enhancing long-lasting debt sustainability;

13. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability, and in this regard stresses the need to take steps to ensure that resources provided for debt relief do not detract from official development assistance resources;

14. *Welcomes* the efforts of the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those which are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

15. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructuring, supports the increasing inclusion of collective action clauses in international bond issuing, and strongly encourages leading bond issuing countries and the private sector to make substantial progress on the preparation of an effective code of conduct, bearing in mind the need not to preclude emergency financing in times of crisis, to promote fair burden-sharing and to minimize moral hazard, which will engage debtors and creditors to come together to restructure unsustainable debts in a timely and efficient manner;

16. *Welcomes* the efforts of, and further calls upon, the international community to support institutional capacity-building in developing countries and countries with economies in transition for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

17. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and funds and other multilateral institutions, to continue to study the possibility of creating a consultative group on external debt management aimed at developing best practices, promoting coherence and strengthening the institutional capacity of developing countries in debt management, taking into account work that has already been done;

18. *Calls upon* all Member States as well as the United Nations system, and invites the Bretton Woods institutions as well as the private sector to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those relating to the question of the external debt problem of developing countries;

19. *Requests* the Secretary-General to submit to the General Assembly at its sixtieth session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

20. *Decides* to include in the provisional agenda of its sixtieth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt crisis and development".